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SUBJECT: Belarus Announces Potash Contract with China, China Claims Otherwise

Refs: A) Minsk 458 B) Minsk 652

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Summary

**¶1.** (U) Despite recent claims from the GOB that Belarus has signed a contract to supply potash to China, it remains unclear whether China and Belarus have reached an agreement. China is Belarus' largest buyer of potash, and the lack of a contract has caused Belarus' overall potash exports to drop by almost 43 percent in the first half of the year. Belarus' potash exporter issued a statement on July 28 indicating that China agreed to a price increase of USD 25 per ton, but the Chinese embassy confirmed for Poloff that negotiations are still ongoing. Regardless of the existence of a contract, it seems unlikely that Belarus will meet its production and export quotas for 2006, though GOB officials remain optimistic. End Summary.

Conflicting Reports on the Contract

**¶2.** (U) After almost a year-long delay, Deputy Prime Minister Vladimir Semashko announced on July 25 that Belarus had signed a contract to supply 1.7 million tons of potash fertilizers to China, an almost 25 percent increase from the 1.285 million tons China imported from Belarus in 2005. According to Semashko, for the next five months Belaruskaly, the state owned company that mines all Belarusian potash, will supply 300 thousand tons of potash per month to China and Uralkaly will provide a one-time shipment of 200 thousand tons.

**¶3.** (SBU) In contrast to Semashko's announcement, Chinese Economic and Commercial Counselor Zhang Delu on August 1 denied the existence of a contract and told Poloff negotiations were still ongoing. Zhang appeared optimistic that a contract would be signed in the near future, noting the urgency of delivering the majority of the potash fertilizer to Chinese ports before the onset of winter.

Price Remains The Sticking Point

**¶4.** (SBU) Extended contract negotiations resulted from the two

countries' inability to agree on a price (ref A). Belarus wanted the price to increase from USD 165 to USD 205 per ton, whereas China wanted a USD 20 reduction. On July 25, Semashko stated that the terms of the contract were "acceptable to Belarus" but did not state a price. On July 28, Belarusian Potassium Company (BPC), the only exporter of Belarusian potassium fertilizers, announced that it had reached an agreement with Chinese buyers Cnampgc and Sinochem to increase the sale price of potash by USD 25 per ton. Independent media sources cited prices ranging from USD 185 to USD 190, but Zhang told Poloff that an exact amount had not been determined because delivery and shipping costs needed to be incorporated into the price. Zhang stated that the final price would most likely be lower than the reported USD 190 since "poor Chinese farmers cannot afford such a high price."

#### Can Belarus Still Meet Production and Export Quotas?

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**¶15.** (U) On July 25, Semashko promised that Belarus' export targets would be met despite the delay in contract negotiations. According to independent journalist Roman Yakolevsky, the GOB set Belarus' potash export quota at 4.26 million tons for 2006. Yakolevsky predicted that Belarus' potash exports would only reach 3.6-3.9 million tons unless Belarus finds another major importer. According to the Ministry of Statistics and Analysis, export of potash fertilizers had fallen 25 percent year-on-year in the first four months of 2006. Independent news agency Prime Tass reported that the absence of a contract caused Belarusian potash exports to China to drop 86 percent to 72,000 tons from January to May 2006, and overall potash exports dropped almost 43 percent during the same time period.

**¶16.** (U) It appears unlikely that Belarus would produce the necessary supplies to meet the high GOB export quotas. The Ministry of Statistics and Analysis reported that output in May 2006 was almost 50 percent less than May 2005. All four

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Belaruskaly potash mines were closed in June for "unscheduled maintenance" (ref B) and Nikolai Novik, chairman of the independent trade union at Belaruskaly, told Yakolevsky that he doubts that the mines will be able to meet the production target this year.

#### Comment

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**¶17.** (SBU) Despite GOB assurances, it is unclear whether a contract has been signed between China and Belarus on potash. The Chinese embassy could be out of the loop or reluctant to share such information with us, but BPC representatives on August 1 also refused to confirm for Emboff the existence of a contract, thus lending some credibility to the Chinese allegations that negotiations are still ongoing.

MOORE